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THE MULTIPLE EXISTENCE AND ACTIVITY OF MONEY CAPITAL

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1.

Money capital takes various forms. It exists either in the form of cash or in the form of bank deposits, money in trust or insurance reserves. When it exists in the form of cash, its existence is unitary, and its activity cannot be duplex or multiple. But if it takes forms other than cash, not only does it assume the character of duplicate existence but the possibility of its duplex calculation increases, and the possibility of its dual activity also increases.

By the multiple character of money capital I mean that nature of money capital which enables it not only to acquire duality in its existence but to serve manifold purposes in its activity.

It is, as a rule, only when money capital exists in the form of bank deposits that its activity is manifold. When it takes the form of cash, it is devoid of duality either in its existence or in its activity. Nor is its activity dual when money capital is in the form of money in trust or insurance reserves, though in these cases it has duplicate existence. It is only when it exists in the form of bank deposits that both its existence and its activity are duplex or multiple.

As cash is an entity concrete in form, if it is handed over by its owner to another person, it definitely passes into the hands of the latter and is no longer in the hands of its original possessor. For it is physically impossible for a concrete object to exist in more than one place at the same time.

On the other hand, bank deposits represent an abstract and incorporeal entity. When money capital takes the form of a bank deposit, it operates in ways different from what it does when it exists in the form of cash. Historically reviewed, the activity of bank deposits was originally simple, not dual, for as they owe their existence to the cash deposited in a bank, there was at first no movement of deposits unaccompanied by the movement of cash. Now, however, that the monetary organisation has developed in consequence of the progress of the functions of financial organs—chiefly banks—, we see that, in advanced countries, bank deposits, thanks to their abstract and incorporeal character, have come to operate as an abstract entity dissociated from cash, on the one hand, and even to be created ideally, on the other, with the result that their activity has taken on a duplicate nature.

To explain it in plain language, a 100-yen convertible note of the Bank of Japan bearing the number, say, 39632 of 137 exists singly; there can be no two notes of the same number. Therefore, if this bank-note has been handed by A to B, it is in the possession of B and is not in the possession of A or anybody else. For this reason, if money capital exists in the form of this 100-yen bank-note, it simply passes into the hands of B, when A hands it to B. It is impossible for it to exist anywhere else or in any other person's hands at the same time.

But if this money capital has become converted from the 100-yen bank-note into a bank deposit of ¥100, that is, if A has deposited his 100-yen convertible bank-note in a bank, his money capital will then exist in the form of a bank deposit instead of in the form of a convertible bank-note, while the bank will at the same time be in possession of fresh money capital in the 100-yen bank-note deposited by A. That is to say, the conversion of A's money capital into a bank deposit causes the separate existence of the money capital of ¥100 in two different forms—in the form of a convertible bank-note, a concrete and corporeal entity, and in the form of bank deposit, an abstract and incorporeal entity.

Next, if the bank which has accepted as a deposit the 100-yen convertible bank-note from A deposits it, in its turn, in the Bank of Japan, the note will, on its return to the Bank of Japan's coffers, cease to be a convertible bank-note, but will remain in existence in the form of a deposit in the Bank of Japan. This shows that, if the 100-yen convertible bank-note originally deposited by A in the bank with which he keeps an account is deposited by this bank in the Bank of Japan, the money capital which was at first a 100-yen convertible bank-note in A's hands ceases to exist as a concrete and corporeal object, and, instead, becomes converted into a deposit of ¥ 100 in each bank as an abstract and incorporeal entity. In other words, in this case, money capital with originally consisted of one 100-yen convertible bank-note develops into two bank deposits of ¥ 100 each.

Thus, it will be seen that when money capital exists in the form of a bank deposit, it invariably maintains a dual existence, at once as money capital of the depositor and as money capital of the bank concerned. The duplicate existence of money capital is not, however, limited to cases where it exists in the form of a bank deposit. Its existence is also duplicate, when it is in the form of money in trust or insurance reserves. That is to say, while money in trust (trust deposit) is, no doubt, the money capital of the trust depositor, the cash or bank deposit held in trust forms at the same time the money capital of the trust company concerned.

It must be noted, however, that money capital in the form of a bank deposit has a peculiar function of its own. That is, it can be used, as it is, in making payments. On the other hand. money capital in the form of money in trust or insurance reserves cannot be put to such use by the entruster or the insurant in the form it actually takes. In this respect, money capital in the form of a back deposit and that in the form of money in trust, etc., offer a striking contrast. Such being the case, money capital has a duality both in existence and in activity when it is in the form of a bank deposit, but when it is in the form of money in trust, etc., it has no duality in its activity, though its existence is dual.

Money capital in the form of a bank deposit has a dual existence, because it constitutes at once the money capital of the depositor and that of the bank. Again, since a bank deposit can be used in making payments in the form it actually assumes, it operates not only as the money capital of the depositor but as that of the bank. Its activity is thus twofold. For instance, in the above-mentioned instance, A, the depositor, can draw on his deposit in the bank by cheque in order to pay, say, calls on shares or for debentures of B company, for which he has subscribed, and so long as B company, which has received this payment from A, does not get the cheque cashed—so long as B company keeps this money capital in the form of a bank deposit—the bank can also purchase, say, public bonds from the Bank of Japan with the same money capital. This means that when the money capital, which was originally one 100-yen convertible bank-note, has been deposited in a bank and remains as a bank deposit, despite the change in its owner, it can exist in three different forms of investment, each of ¥ 100, viz., A's negotiable instrument valued at ¥ 100, B company's bank deposit of ¥ 100, and the bank's public bond valued at ¥ 100. In point of activity also, it is able to operate both in A's purchase of the negotiable instrument and in the bank's purchase of the public bond. This is what I mean by the multiple character of money capital.

2.

The multiple character of money capital presents itself in various forms. The so-called deficit-covering bonds issued by the Government nowadays are subscribed to by the Bank of Japan, and the funds raised by this means—the Government's deposit in the Bank of Japan—are employed for meeting State expenditure. If, in this case, a company which has received a cheque from the Government deposits it in a bank with which it keeps an account, it can thus create a new bank deposit, while the bank, by presenting the cheque which it has received to the Bank of Japan for payment, can create its own deposit—transferred from the Government's deposit—in the Bank of Japan. These deposits belonging to two different owners operate as separate units of money capital.

For instance, the Government's payment of ¥ 100,000 by cheque results in the creation of a deposit of ¥ 100,000 in a private bank and another deposit of the same amount in the Bank of Japan. While the depositor company can utilise its deposit of ¥ 100,000 in the bank for paying the expenses incurred in the management of its enterprise, the bank can invest the deposit which it has in the Bank of Japan in public bonds, provided the cheques by which the depositor company has made these payments are deposited by the drawees in the bank, instead of being cashed. In such a case, it will be obvious that the money capital of ¥ 100,000 paid by the Government develops dual activity.

It may appear at first sight that it is impossible for individual banks to invent the deposits in their hands in public bonds—a course which necessitates the locking up of their money capital for a long period—, for, it may be argued, although it is true that, if the depositors generally use their bank deposits, as they stand, in making payments, it will not cause any decline in the deposits in the banks as a whole, it will nevertheless affect the amounts of deposits in individual banks, as they will have to honour the cheques presented to them for payment by other banks. From this point of view, it may be contended that money capital cannot acquire duality in its activity simply by conversion into bank deposits, though it may then assume the character of dual existence.

But if, in case depositors make their payments by cheque, the drawees of these cheques happen to be the depositors of the same bank, the deposit which this bank has in the Bank of Japan will remain unaffected, and therefore the dual activity of bank deposits will be possible in this case. Again, in the present improved banking organisation—Japan is, of course, among the countries with highly developed banking organisations—the cheques drawn by depositors are exchanged between banks, which exist in large numbers, and the sums which one bank has to pay to another bank are largely offset by the sums which it stands to received from the other. That is to say, accounts between banks are mutually settled through exchange at the clearing house. The amount of money capital which has to be transferred from one bank to another is the balance of clearing only. As there is no occasion for the transfer of the amount offset, this portion of money can remain as deposit in the Bank of Japan.

On a rough estimate, about 30 per cent. in amount of the bills and cheques paid into banks in big Japanese cities are those drawn on themselves. The remaining 70 per cent. have to be sent to the clearing house, but it is only about 20 per cent. in amount of these bills and cheques which, in the ultimate, forms the balance of clearing. Such being the case, supposing that money capital amounting to ¥ 1,000,000 is moved by the depositors generally by means of cheques and bills, the amount which actually changes hands between banks will be only about ¥ 140,000. That is to say, of the million yen involved in all transactions, ¥ 860,000 remains undisturbed, as a matter of fact.

In such circumstances, the banks are able to apply to the purchase of public bonds and other investments not only money capital in the form of deposits which the depositors do not draw upon in making payments—unchangeable deposits—but also the major part of the money capital in the form of deposits which are drawn upon in making payments—changeable deposits.

3.

A study of bank deposits will disclose the fact that they are essentially multiple in their constitution. For instance, according to investigations made by the Finance Department, the deposits in all ordinary banks throughout the country totalled ¥ 11,474,467,000 on May 31st, 1937, but this figure was clearly based on the multiple calculation of money capital. For, the advances by these banks which, according to the Finance Department's investigations, totalled ¥ 7,425,675,000 on the same date, must include funds which were back in the hands of banks as deposits, as it is certain that many persons who received money from borrowers of bank loans would deposit it in their respective banks. Thus, when the money capital held by banks in the shape of deposits has been paid out, it soon returns to banks as deposits. All the bank deposits except the portion constituting the reserves for payment are in this way continually being paid out and as continually being re-converted into deposits.

Not only do loans become converted into deposits, but the money paid by banks for the negotiable instruments which they have purchased becomes so converted also, a fact which testifies to the multiple constitution of money capital. The Finance Department's investigations show that the negotiable instruments held by all ordinary banks in the country at the date named totalled ¥ 4,775,124,000 in amount, of which the local loan bonds, debentures and share certificates, to the exclusion of national bonds and foreign securities, accounted for ¥ 2,115,727,000. The money paid by the banks in the purchase of or subscription to these local bonds, debentures and shares must have been deposited in banks by the sellers or the local autonomous bodies and companies concerned or by those who were paid by them.

Bank deposits are of multiple constitution because when banks have invested money capital in the shape of deposits in the above-mentioned instruments, the money paid by them comes back to banks as new deposits.

That bank deposits are of multiple constitution is borne out by the fact that money capital acquires multiplicity in its activity the instant it takes the form of deposit.

4.

Money capital is multiple in its activity only when it exists in the form of bank deposits, but it can be multiple in its existence when it is in forms other than bank deposits. Its existence has duality, for instance, when it is in the hands of monetary organs such as trust and insurance companies.

As I have explained, a bank deposit is in itself of multiple constitution, and, moreover, what are given out as the total amounts of money in trust and the liability reserves and the reserves for payment of insurance companies include, to a more or less extent, the money capital which trust and insurance companies keep in banks as their deposits. Again, it is more than conceivable that, when negotiable instruments were purchased with postal savings, giro-transfer savings or reserve funds for the operation of the State insurance system as well as with the funds of trust and insurance companies, or when low-interest advances were made out of these funds, the money paid for these negotiable instruments must have been deposited in banks by the sellers of these securities, and the money let out at low interest must also have been deposited in banks by those who obtained it from the borrowers. The figures purporting to show the total amounts of the funds in the hands of trust, insurance and other institutions are, therefore, obviously based on the multiple calculation of money capital.

5.

Associated with the multiple character of money capital is the question of surplus capacity of banking organs for investments. By the surplus capacity of banking organs for investments is meant the limit of their power to absorb public bonds, debentures and shares.

Let me now explain this capacity in reference to bank deposits. It is commonly assumed that, leaving its own capital out of the reckoning, a bank's surplus capacity for investments is represented by the balance left after the amount its reserves for deposits, the amount of its advances and the amount of the negotiable instruments in its possession have been deducted from the amount of deposits. But since, as already explained, loans made by the bank are destined to cause an increase in deposits almost simultaneously and as its own purchase of or subscription to negotiable instruments tend to bring about similar effects, it would be too rash to conclude that the above-mentioned balance embodies the limit of the bank's surplus capacity for investments.

In cases, however, where a bank purchases Government bonds from the Bank of Japan, its deposits in the Bank of Japan will be reduced to that extent. Besides, as the money capital with which these purchases are made is, as already explained, no other than the fund obtained by the Government when it caused the Bank of Japan to subscribe to its bonds, the bank's surplus power for investments diminishes by these purchases.

Again, the purchase of foreign securities, if made direct from overseas, will, needless to say, lead to a decline in the bank's surplus capacity for investments, as it means the outflow of money capital to that extent.

On the contrary, the issue of local bonds leads to an increase in bank deposits, as the local autonomous bodies—prefectures, cities, towns and villages—entrust ordinary banks with the business of handling public money, depositing their money in these banks. Payments made by these autonomous bodies with the funds raised by this means simply results in the transfer of deposits from one depositor to another. Consequently, subscription by banks to local bonds does not, after all, cause any diminution in their surplus capacity for investments. The same thing may be said of their subscription to debentures and shares.

One thing worthy of special note in this connection is that so far from reducing their surplus capacity for investments, subscription to new local bonds, debentures and shares by banks operates to enhance the power of the financial world to absorb these negotiable instruments.

It is usually for the carrying out of town planning or street improvement schemes that local autonomous bodies issue new bonds, and a large proportion of the money thus raised is employed for the purchase of land. No small portion of the proceeds of the issue of debentures and shares by companies is also applied to the purchase of the land required either for the establishment of new factories or for the extension of existing factories. This is so not only in the case of railway, tramway and electric companies but in regard to industrial companies as well.

Those who sell land in such transactions will either deposit the money obtained by the deal in banks or invest it in negotiable instruments. If they purchase new lots of land with it, instead, those who sell these lots to them will dispose of their money in the manner described.

Such being the case, new issues of local bonds, debentures and shares do not, in the ultimate, cause a commensurate decline in bank deposits, provided the proceeds of these issues do not flow out of the country. Consequently, these issues do not reduce the surplus capacity of banks for investments. In fact, further issues of such negotiable instruments will be rendered possible to the extent to which the money realised by these issues is invested in land.

This manifold activity of money capital has hitherto been entirely overlooked.

6.

To put my explanation in legal terms, money capital has simple existence so long as it exists in a form in which it can become an object of ownership, and in that form its activity cannot but be unitary, but once it assumes the form of credit, its activity becomes multiple. Where there is a credit there is a liability of the same amount, and the activity of credit independently of the liability becomes possible. Whereas the creditor can manipulate his credit—the right of claim on his bank deposit, for instance—as his money capital, the debtor can become a second creditor by the transfer to another party of what he has received from his creditor—the cause of liability—and can operate this newly created credit as his money capital, provided this proceeding does not work havoc with his liability.

In this way, money capital constituting the first credit gives birth to the second credit, which will, in its turn, create a third credit, and so on and so forth, thereby ensuring the manifold development of money capital.

When money capital is in a concrete and corporeal form, it is in the form of an object of ownership, and then its existence is unitary. But when it is converted into an abstract entity, it acquires the character of credit, and money capital of this type comes about not only when an object of ownership is taken over, but it can be visualised merely as what embodies relationship between credit and liability, without regard to the transfer of ownership. When a bank accepts a certain deposit as security, for a loan of the same amount at the same time, such a deposit as this is created without reference to ownership. Such a deposit is nothing but an ideal entity, but it is capable of manifold development in the same way as money capital based on ownership.

The multiple character of money capital is such as I have so far described, though the instances I have given in illustration of it are but few. So long as money capital exists in the form of bank deposits, and not in the form of cash, it is capable of manifold activity. The forms that the activity of money capital takes are multifarious, and the complexity of the processes grows the more, the more banking organs are involved. It may fairly be said that this phase of the problem deserves particular attention as the monetary organisation develops.